

TAX: INCOME TAX WITHHOLDING

TB-23

SUBJECT: DETERMINING THE CORRECT VERMONT WITHHOLDING BY EMPLOYERS

Revised December 8, 2005

32 V.S.A. § 5841

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This bulletin addresses the computation of Vermont Payroll Withholding Tax. November 2002 revisions reflect changes made in 2002 Act 140.

GENERAL RULE

Employers must withhold using the Vermont withholding tables or bracket withholding charts for the applicable year. These charts are available on the Department's web page, <http://www.state.vt.us/tax>, or by telephoning the Department at **802 828-2515**. The tables are created each November for the following year and are available on the web page in the last week of November with printed copies available about a week later. **The Department no longer does an annual mass mailing to all employers. Employers who do not receive the annual information from software providers or other services will need to download the charts from the web page or request them from the Department.**

FORM W-4VT

Vermont Employee Withholding Allowance Certificate, Form W-4VT, is provided for employees' use. It is similar to federal form W-4. An employer may wish to have all employees complete form W-4VT although this is not a Department requirement. The Department last revised form W-4VT for use beginning July 2001 (when law changes required the elimination of the option of withholding at 24% of the federal tax). Form W-4VT is not revised annually and forms completed by employees do not expire at the end of each year. The form may be obtained from the Department web page or by calling the Department at the telephone number shown above.

WHEN NO W-4VT IS PROVIDED

If an employee has not submitted W-4VT the employer should withhold based on the filing status and withholding allowances shown on the federal W-4. If an additional amount of withholding per paycheck is shown on the federal W-4, line 6, 27% of this amount should be withheld as additional Vermont withholding.

SUPPLEMENTAL WAGES

When Federal withholding is computed as a flat percentage under federal supplemental wage withholding rules (for bonuses, overtime pay, tips, etc), the Vermont withholding is 7.20% of the supplemental wages where the federal rate is 25%. The Vermont rate is 9.5 percent where the federal rate is 35%.

EMPLOYEES IN CIVIL UNIONS

Vermont income tax of a civil union partner is computed in the same manner as if the partners were married. An employee in a civil union should use W-4VT to show the filing status and number of withholding allowances which result in the correct Vermont tax. As with married employees, partners in a civil union may elect to have withholding taken at the higher Single rate.

In determining the wages subject to Vermont withholding, employers should apply the federal rules as if the employee were married to the civil union partner. For example:

- An employer provides health insurance coverage for employees and their families. Under IRS rules, the coverage for an employee's spouse is a nontaxable fringe benefit but the cost of coverage for an employee's civil union partner is taxable income to the employee. For Vermont tax purposes, the benefit for the civil union partner is treated in the same manner as a benefit for a spouse, thus the coverage for the civil union partner is not taxable.
- An employer provides a "cafeteria plan" package which allows employees to use pre-tax income for health insurance payments. IRS rules allow the premiums for an employee's spouse to be pre-tax but treat the money used to pay for a civil union partner's insurance as taxable. For Vermont tax purposes, the premium for the civil union partner is also pre-tax.

Note that flexible spending accounts (FSAs), individual retirement accounts (IRAs) and similar accounts providing tax benefits are not affected by the civil union law. These accounts continue to be controlled by federal rules, not Vermont law. Also note:

- Only employees in civil unions are affected. There is no change in the tax treatment of domestic partnership benefits which may be offered to other employees.
- Only Vermont tax is affected. Federal tax and taxes of other states are unchanged.

ADJUSTMENTS FOR SERVICES PERFORMED OUTSIDE VERMONT

Nonresidents: When an employee works both within Vermont and outside of the state during a pay period, the Vermont withholding is first calculated on the entire earnings, then multiplied by the ratio of the Vermont hours to total hours during the period.

Residents: When an employee works both within Vermont and outside the state during a pay period, the Vermont withholding is computed on the entire earnings, then reduced by the amount withheld for other states where services were performed.

Questions on Withholding can be directed to the Taxpayer Services Division at (telephone) **(802) 828-2551**, (email) vttaxdept@tax.state.vt.us, or (mail) 109 State Street, Montpelier, Vt. 05609.

Approved

George H. Phillips
Policy Analyst

Tom Pelham
Commissioner of Taxes